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Accounting Standards Board
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Dear Mr Godsall,

Re: ASB Consultation Paper on the Future of UK GAAP

We welcome the consultation paper on the future direction of UK GAAP although we recognise that there is still some way to go before all the issues are resolved. Attached are our responses to the specific questions raised in the consultation paper and the overall points we would like to make are as follows.

To some extent part of the problem that needs to be addressed arises because, as the consultation paper notes, we have a UK GAAP that is complex. The content has been altered over time to reflect IFRS in a piecemeal fashion, but on the basis that convergence is the overarching strategy, so that the ASB's approach has been that if it is in IFRS it must be replicated in UK GAAP. Going forward the potential changes raise questions as to what is the role of the ASB, accepting that what happens in the UK may be constrained by EU developments. It is unlikely that "influence" on the IASB will be sufficient to resolve the issues and there are likely to be sectors where full IFRSs or the IFRS for SMEs will not be appropriate without amendment or even a different approach. Such differences would require a positive role from the ASB, whether the results are called a SORP or by some other title. A satisfactory international solution for all the entities potentially covered by the consultation paper is highly unlikely.

Especially in the current climate there is a concern over the increasing burden of reporting placed on entities and broadly speaking we welcome any convergence measures that reduce different reporting requirements within a group. However while the reporting regime can be simplified by removing the dual systems of UK GAAP and IFRSs, this will not necessarily always simplify the financial reports or increase their usefulness. It is also key that the costs and benefits of IFRSs, or reporting based on IFRSs, for those companies not previously subject to such a regime, are properly evaluated to ensure that any change is beneficial. IFRSs are not without their problems even for the entities to which they currently apply and the IASB has played a part in the developments highlighted by the recent complexity report. Also, concerns remain over the IASB's approach and the future direction of IFRSs, not helped by the recent issue of the proposals on IAS37.

It is therefore critical not only to be clear on which entities fall within which categories (tier 1 etc.) but also to be clear for each sector who are the key users, what information they need and what is the best way to source that information. IFRSs have been developed with particular types of entity in mind and there is a "one size

fits “all mentality. Therefore it is likely to be the case that full IFRS or the IFRS for SMEs will not be appropriate for some of the entities potentially covered by the consultation paper. It will be necessary to address specific sectors as well as to fully review what should be done about the financial statements of subsidiaries. We believe that the existing exemptions under UK GAAP for subsidiary reporting should be carried forward and that an amended IFRS for SMEs should therefore be considered.

As the consultation paper also notes, reporting should be targeted and proportionate. That is easier said than done and will require significant work not just a largely blanket acceptance of what the IASB issues for convergence alone.

We hope that you find our comments useful and thank you for the opportunity to be able to comment on this matter.

Yours sincerely

Scott Hayes
Group Finance Controller

Question 1 – Which definition of Public Accountability do you prefer: the Board’s proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

While there is no answer that does not have problems, on balance we would agree that the Board’s preference on this question is more appropriate. However it will require more clarity over what is included or excluded by the public accountability distinction and the practical consequences. Also, while the alternative of using size as the criteria would reduce comparability, given some of the issues surrounding IFRS care needs to be taken over how far the coverage of public accountability extends in respect of smaller entities. The acceptance of the Board’s approach will depend on how issues, such as those in the response to Question 2 below, are resolved.

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

While it is not yet sufficiently clear which entities would be included or excluded under a public accountability test, we would be concerned that entities could be required to comply with IFRS when it was not justified. We have sympathy with the view quoted in paragraph 2.13 that the nature of the entity can mean that IFRSs are not appropriate as they are not designed for such entities.

IFRS has been developed with a view to providing general purpose financial statements for entities reporting to a market where their shareholders equity is publicly traded. This in itself is not without its problems given the focus in IFRS on “one size fits all”, as well as reporting in an international context which means that more issues are covered and so need to be addressed by all companies regardless of the relevance to them. Therefore it is necessary to look at particular sectors and consider who are the key users, what information is really needed and whether IFRS financial statements the best way to meet these needs. IFRS or IFRS for SMEs may not always be appropriate, with relevance and consistency within the sector more helpful than apparent consistency between sectors. For example, the financial statements of pension schemes and the needs of the key users may not require the global capital markets approach in IFRS but rather something more tailored to the regulatory regime and interests of members in each country.

Question 3 – Do you agree with the Board’s proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

Where there is publicly traded debt it seems reasonable to require IFRS but how much further one extends this is related to the issues of clearly defining “publicly accountable” and the consequences for the entities included.

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you

could highlight such disclosure reductions as well as explaining the rationale for these reductions.

This question should be much broader, encompassing all subsidiaries whether wholly owned or not and whether “publicly accountable” or not and the requirements may not be the same for all subsidiaries. While broadly speaking we welcome convergence measures that reduce differing reporting requirements for group and subsidiaries, there needs to be much more work done on who the key users of various subsidiaries’ information really are, what they need and whether this is best met by some form of IFRS financial statements or by other means. Issues such as cash flow statements, related party disclosures and share options in subsidiaries are all areas where the requirements of IFRS are highly questionable in this context. This is not resolved by defaulting to IFRS for SMEs and consideration needs to be given to how the existing exemptions on disclosure in UK GAAP can be carried forward. This is also something that has not always been helped by the automatic changing of UK GAAP to IFRS over recent years. We believe that a regime which provides for subsidiary reporting on a measurement and recognition basis consistent with Group reporting but with appropriate disclosure exemptions would have cost benefits without being detrimental to any benefits for the users of subsidiary financial statements.

We need to be clearer on what are the respective costs and benefits, bearing in mind that just because a cost is marginal relative to say an entity’s profit does not make it acceptable if there is no commensurate benefit. There are also issues to resolve over the impact on distributable profit and tax, both areas which would also need to be monitored closely going forward given these are not things the IASB will consider when it makes changes in future. As regards tax it is also necessary to clarify and resolve any problems with HMRC prior to, not after, making any changes in the reporting regime. We would also not rule out the need for something in the UK which differs from both full IFRS and the IFRS for SMEs.

Question 5 – Do you agree with the Board’s proposal that the IFRS for SMEs should be used by ‘Tier 2’ entities?

While we agree that this may provide a good solution, this comment is subject to the points made on Questions 4 and 6.

Question 6 – Do you agree with the Board’s proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.

We can see that it is easier to just accept IFRS in all cases but we do not believe that to be appropriate, especially if more companies were brought within its scope albeit through the IFRS for SMEs. The nature of the international approach to standard setting, let alone the track record of the IASB, means that there will be occasions where there will be unacceptable and perhaps unintended consequences for UK entities. The ASB must retain the right to address these as and when they arise, whether they relate to the accounts of subsidiaries or the accounts of a particular

sector, and there may be the need for some specific reporting requirements in the UK based on amended IFRSs.

Question 7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

We agree with the Board unless the responses to this consultation paper identify examples where the benefits of greater reporting clearly outweigh the costs.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

While this is not our area of expertise, for the reasons in our response to Question 9, we do not see any reason to change from the current use of the FRSSE to IFRS and impose an additional burden on smaller entities.

Question 9 – Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

While developments in the EU may affect the future use of the FRSSE and the IFRS for SMEs in the UK, either through requirements or options, we would suggest that any move to replace the FRSSE by the IFRS for SMEs is carefully considered. It needs much more research on the costs and benefits than the example quoted in the consultation paper. Those who have adopted IFRS are aware that until you have done the exercise in practice you do not have a full understanding of the implications. Also it is necessary to see how IFRS develops over the next couple of years before imposing it on even more entities.

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

SORPs have provided a very useful addition to financial reporting in the UK over recent years and we do not see this changing. When standards are set at an international, rather than at a national, level it is more likely that some form of SORPs will be needed. As we have noted under the earlier questions the danger with IFRSs is that they are a “one size fits all” developed for certain types of entity reporting in particular markets. There are likely to be some sectors where, given the nature and structure of the operations, IFRS are not the best way to report to the key users. Again, as we have noted earlier, we believe that the financial reports of pension schemes are one such example of this, although we are not saying that such reporting could not be improved.

We do not see the problem with the existence of the IFRIC and SORPs as the former is interpreting IFRSs for those entities where it is relevant while SORPS should deal

with those sectors where existing IFRSs are either not appropriate, either in part or in total, or are silent.

Question 11 – Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

We agree that this is a reasonable aim to improve reporting in the UK but, for the reasons set out in our points to Question 12 below, we see this as being a difficult and time consuming exercise.

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

As with other aspects of this consultation paper, the underlying question is which entities will fall within this classification, and how this ties in with the definitions of Tier 1, etc. This then raises a number of points similar, for example, to the points raised in connection with the SORPs and touched on in paragraphs 3.7, 3.8 and 3.10 in the consultation paper, such as who are the key users, what do they require and are there both large and small entities caught by the requirements?

Also given the different nature of the operations, are IFRSs appropriate and will they provide useful and meaningful information? While we are not familiar with reporting in this area, from our experience with IFRSs we would be surprised if they were appropriate, without some amendment, to all entities caught by any final definition. We would also suggest that the last line of the question should have said “amended” rather than “supplemented”, as the latter implies that the only changes will be to add requirements to IFRS or IFRS for SMEs, which we hope is not what was intended.

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

We have no comment on this question as it is best addressed by those who prepare and use the information.

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

As with our earlier answers, for some sectors we would expect additional guidance to remain appropriate. Indeed the more the underlying requirements use IFRSs, then the

more we would see the likely need for something extra where we are dealing with those sectors where the entities differ from those assumed as part of the IASB's base model.

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

While it is the case that, in relative terms, the proposals would affect us less than many other entities we have a number of comments on this section. Not least our experience of IFRSs over the last few years is that until you have tried to apply it in practice you are likely to underestimate the initial and ongoing impact of complying with the requirements. Therefore any consideration of the responses to this consultation paper will be difficult as the affected entities may lack the IFRSs knowledge to respond properly and may even just fail to respond. Therefore any further work should not be underestimated and needs to be carefully planned if the aims in paragraph 1.10 of reducing costs and assisting improved decision making are to be met. In this context we would also point out that the IASB's track record causes us to regard the summary of effects in paragraph 4.1 as slightly lacking in terms of potential ongoing costs and complications of compliance with IFRSs.

In assessing the implications of change care is needed in several respects. For example, paragraph 4.6 refers to "consistency" but how far should this go – is total consistency for all IFRSs requirements really what is meant or needed? Paragraph 4.8 highlights the need to look at potential benefits in terms of the particular sectors as not everyone will have the same potential benefits. Also while one accounting system will have cost benefits, both for companies and accounting firms, this can be offset if the system is more complex and requires more work to maintain and keep current. While the items identified in the recent complexity project cannot all be laid at the door of the IASB, that organisation must take some of the responsibility. While one can debate the accuracy of the incremental costs in 4.9, the point is that they are still a cost and there needs to be a clear benefit to justify these in any proposed changes. Also the work in 4.10 appears to be of a very limited nature to draw too much comfort from.

In paragraph 4.11 the paper rightly points to the body of IFRS knowledge that has been built up in recent years in some companies and accounting firms. While this will be helpful in any changes, it is important not to lose sight of the fact that, more than UK GAAP, IFRSs remains a regime where the words and not the principles tend to rule and these words are not always noted for their clarity of meaning. It is only too easy to underestimate the implications of change.

Question 16 – What are your views on the proposed adoption dates?

It is difficult to say what the transition period should be, and whether it should vary between sectors, until more work is done and the implications of the final proposals are clearer. The timing will also need to consider future changes in IFRS (and when these are reflected in the IFRS for SMEs) and the development of XBRL reporting in the UK.